

FISCAL NOTE

TO: Chief Clerk of the Senate
Chief Clerk of the House

FROM: James A. Davenport, Executive Director

DATE: February 26, 1996

SUBJECT: **SB 2577 - HB 2513**

This bill, if enacted, will amend the Health Maintenance Organization Act of 1986 authorizing the Department of Commerce and Insurance and the Department of Health to regulate health maintenance organizations (HMO). The bill prohibits unlicensed entities from assuming risk when providing health care services, increases the deposit and risk reserve requirements, and clarifies the health quality standards to be met by Health Maintenance Organizations. Any entity doing business with TennCare, including Preferred Provider Organizations, must become an HMO by December 31, 1996. The definition of HMO also includes any entity receiving a capitation payment to provide vision or dental care and contract with a third party to provide such services.

The Commissioner of Commerce and Insurance is responsible for the regulation of HMOs and issues certificates of authority. The department must develop an interdepartmental agreement with the Commissioner of Health who is responsible for insuring that HMO's provide basic health care services, as defined in the bill, efficiently,

effectively and economically. The Department of Health must also assure that each HMO has a sufficient provider network.

The Department of Health will conduct examinations every three years to review quality assurance programs. The HMO's must make available all complaints and responses to either department.

The bill will lower the current premium tax on HMO's from 2% to 1.75% on all TennCare premiums. Behavioral Health Organizations will be subject to the same 1.75% premium tax for any TennCare revenue.

The fiscal impact from enactment of this bill is estimated to be a net increase in premium tax revenues of \$4,114,700. The loss of revenue from lowering the tax rate for current HMO's will be offset by the premium tax being imposed on the BHO's TennCare revenues.

Premium Tax on Current HMO's	
@ Previous 2% Rate	\$ 11,434,700
@ Proposed 1.75% Rate	<u>10,005,400</u>
Difference	\$ (1,429,300)
 Premium Tax on BHO's	 <u>\$ 5,544,000</u>
Net Gain	<u>\$ 4,114,700</u>

The fiscal impact of this bill is also estimated to increase revenues by \$10,000 for examination fees to be charged by the Department of Health that were not previously authorized in statute.

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James A. Davenport". The signature is written in a cursive style with a large, stylized initial "J".

James A. Davenport, Executive Director